

MEETING SUMMARY NOTES

Finance Work Group

January 22, 2003

3:30 p.m., Mayor's Conference Room, County-City Bldg.

MEMBERS: Present - Brad Korell, Lowell Berg, Tom Schleich, Larry Zink, Ron Ecklund, Jim Budde, Mark Hesser, Connie Jensen, Kent Seacrest, Tim Thietje, Dan Marvin, Roger Severin, Terry Werner, Polly McMullen, Richard Meginnis, Allan Abbott (nonvoting)
Absent: Keith Brown, Bob Hampton, Otis Young

OTHERS: Kent Morgan, Jon Carlson, Steve Masters, Margaret Remmenga, Randy Hoskins, Gary Brandt, Nick McElvain, Don Herz, Randy Wilson

AGENDA ITEMS DISCUSSION:

1. Welcome - Brad Korell, Work Group Chair

Brad Korell brought the meeting to order at 3:33 p.m. by welcoming those present. He then reviewed the agenda with the work group.

2. Meeting Summary Notes - January 8, 2003

Mr. Korell asked if there were any changes to the "Meeting Summary Notes" from the January 8, 2003 meeting. None were suggested.

3. Public Comment Period

Mr. Korell asked if there were members of the public present who would like to address the Work Group at this time. There were none.

4. Wastewater Standards Implementation - Steve Masters

Mr. Korell stated that we would like to come to closure relative soon regarding the water and wastewater guiding principles. Mr. Korell stated that Keith Brown could not be present and asked that the group delay taking action on that issue. He stated that then we would proceed with the Work Group's discussion regarding streets.

Mr. Korell stated that one of the issues plaguing the group are the standards that have been handed down by the “Feds” on complying with both water and wastewater quality. He continued by stating that one of the key questions asked of the city is how much of the cost that we have in these plans over the next 12 years is due to getting up to and meeting the standards. The answer has been difficult to seek out and requires some assumptions. He proceeded by stating that the city has spent a lot of time on it, and we will address that issue today. Mr. Korell stated that there are lots of ways to interpret standards, both in terms of the timberline that we are reacting to and the programs that we are implementing.

Mr. Korell introduced Steve Masters to discuss the issue of standards. Mr. Masters stated that he wanted to set the stage for Gary Brandt, who will present information primarily on standards. Mr. McElvain will talk about the standards of growth for water and Mr. Brandt on wastewater. Mr. Master’s directed the group’s attention to several handouts as follows, “Lincoln Wastewater System Treatment Facilities NPDES Permit Renewal Status”, “Criteria on Growth vs. Standards”, and “Projected CIP Needs for 2002 Comprehensive Plan”, “Category 5 CIP Projections” and “Major Wastewater CIP Projects”. Mr. Masters stated that basically for water, as you look to standards over the next 12 years, we don’t anticipate any major changes in how we function today. For the wastewater system, we are in the final stages of negotiating our discharge permit.

Mr. Brandt briefly reviewed the handout entitled, “Lincoln Wastewater System Treatment Facilities NPDES Permit Renewal Status” and asked the group to review the handout further and to call him if they had any questions.

Mr. Abbott stated that, in layman’s terms, we have spent a lot of money on research over the last ten years and have done everything possible to keep our costs as low as possible. Improvements were initially estimated to cost about \$35 million dollars to treat the flows, and we now have that down to the \$20's. He continued by stating that we have been able to scientifically defend what we are doing, and we are making progress.

Mr. Korell questioned if EPA will accept the proposal. Mr. Brandt stated that Region 7 has to agree or concur with the State’s conclusion. Mr. Korell asked when will there be a ruling on this. Mr. Brandt stated that when the public notice comes out on the permit, NDEQ will hopefully have assurance from EPA that it can be issued. There will then be a 30 day comment period. Once that is done, there is a “ruling finding” reached and a formal issuance of the permit.

Mr. Hesser asked if ammonia is a byproduct of the treatment. Mr. Brandt confirmed that it is. Mr. Hesser then asked if plants have to be modified to limit the amount of ammonia. Mr. Brandt replied by stating yes, we have to meet the surface water quality standards.

Mr. Ecklund stated that the number one problem is ammonia discharge and that departments are working together to take care of that problem.

Mr. Masters stated that we were one of the last three treatment plants in the state of Nebraska to have ammonia standards in place. All of the rest of the dischargers in Nebraska had made compliance or were nearly there. He continued by stating that it is easy for us to be angry or frustrated with the State and EPA, but they were somewhat on the line in allowing us to continue to do this work. Mr. Masters continued by stating that the new limits will allow us a little more flexibility in how we phase our construction which will help us in cash flowing other construction needs of the community.

Randy Wilson stated that this will save money in future expansions to the plant because you are designing to a different level than originally proposed, so it will be an ongoing savings to the city.

5. Cost Implications of Growth and Standards

Mr. Masters briefly reviewed the sheet entitled, "Criteria on Growth vs. Standards." He stated that he wouldn't review each of the items. He stated that, for the wastewater plant, as an example, right now, both of our plants together process about 25 million gallons per day. With the new ammonia standards, in general terms, the capacity of those plants is reduced by one-half. Mr. Masters proceeded by stating that we are able to treat ammonia by holding the water in the plant for a longer period of time. So to come into compliance, we are going to have to build more tankage. As we have looked at the cost of growth, we have looked at what it takes to bring us back to the 25 million gallon tankage capacity for two treatment plants and any additional facilities we need to meet the continued growth of the community.

Mr. Korell asked Mr. Masters to review the items on the list that were not assigned to growth. Mr. Masters stated that any repair or upgrades that were made to continue to meet the existing demand are considered to be non-growth expense.

Mr. McElvain reviewed the handout entitled, "Projected CIP Needs for 2002 Comprehensive Plan". He stated that none of our costs over the 12 year time period were attributed to standards or the regulatory side of things. There are two issues: arsenic removal and UV disinfection. There are no standards in place at this time that would cause us to change something. He stated that there is a growth column and total column, and the difference is rehabilitation. Anything regarding rehabilitation, for example wells, is a capital improvement expense and would fall into the totals column and would not be included in the cost of growth calculation. Mr. McElvain briefly reviewed the next page of the handout, which showed the assumptions. He then reviewed the last page of the handout, which highlighted the projects in the 12 year plan.

Mr. Korell clarified that all of the standards that we are trying to meet are for wastewater only.

Mr. Brandt then briefly reviewed the handout entitled, "Major Wastewater CIP Projects". He pointed out the new wet-weather facility line item, which comes within the 12 year time period. He stated that during wet weather, we end up with additional flow entering the wastewater system. The wastewater must be treated to the standards that are in the permits. We are having

facilities designed to treat 99.9% of the flows that come to the plant. Essentially, in the 6-12 year time frame, for the new wet weather facilities, this is what you would call a “new standard”, but it hasn’t been finalized yet.

Mr. Korell summarized that what we are hearing is that if we didn’t add any more people and lived within the system that we have today, we would have to spend at least \$10 million to meet the standards that are coming. When we throw the other costs on top of that, then we enter the argument of whether we want to allocate the cost to growth or standards.

Mr. Korell thanked Mr. Masters, Mr. Brandt and Mr. McElvain for their work in preparing their presentation.

6. Water and Wastewater Information Updates

Mr. Korell stated that he had asked Ms. Remmenga to complete the sheets on water and wastewater and to add in the assumptions. Mr. Remmenga stated that she had compared the numbers that she and Bill Giovanni had circulated at the last meeting. She stated that all the numbers are the same with three exceptions:

- (1) When Mr. Giovanni was figuring the amount of bonding, he did not take into account the \$1.6 million dollars that is going to be transferred from water to wastewater.
- (2) On her spreadsheet, she ran down the cash balance, but Mr. Giovanni kept a constant cash balance throughout the whole process. For water, he kept a cash balance of \$10.2 million and for wastewater, he kept a constant end-of-the-year balance of \$4.7 million.
- (3) Mr. Giovanni had transposed a couple numbers, which resulted in very insignificant differences.

Ms. Remmenga stated that for the most part, the two sheets do reconcile.

Ms. Remmenga briefly reviewed the Black & Veatch water/wastewater rate survey for 2002. She stated that it is a comparison of water and wastewater rates for the top 50 cities in the United States. Mr. Berg asked where Lincoln would be ranked. Mr. Marvin stated that we would be about \$25 per month combined, so we would rank about 5th or 6th in lowest rates.

Mr. Korell thanked Ms. Remmenga for her all her work in this process.

7. Work Group Recommendations for Water and Wastewater

Mr. Korell stated that the number crunching has come to a close and stated that we need to come up with a recommendation to the full committee. He continued by stating that Mr. Morgan and Mr. Herz had drafted a document for their review; the document is titled “Water and Wastewater Guiding Principles”.

Mr. Korell stated that there are three things for clarification on the document

- (1) Item #2. Replace “maintenance” with “system replacement and upgrade”

- (2) Item #3. On the last bullet item, replace “immediately” with “for fiscal year for 2003-2004; and change “water” to “wastewater”
- (3) Item #4. Change “15 to 20 years” to “18 to 20” years.

Mr. Korell then asked for comments regarding this document.

Mr. Zink stated that he would like to add, in the second paragraph of item 1, “if user fees are raised” at the end of the sentence, in part, “the use of revenue bond financing.”

Mr. Abbott asked that item 2 and 3 be reversed, as this would set out the criteria prior to talking about it.

It was suggested to move the last sentence of item #1 and put it as a bullet under item #2 and delete the second paragraph of item #1 entirely.

Mr. Korell stated that they would take a look at items #1 and #2 to see if they could be combined, as it seems to be redundant.

Mr. Zink asked if we could add the approximate costs on growth vs. upgrade to the system. Mr. Korell stated that we would add the spreadsheets to the recommendation. Mr. Ecklund stated that he felt that we don’t want to show those numbers, and instead show the total costs. Mr. Budde stated that he felt we should keep it as simple as possible. He continued by stating that these are just assumptions we are stating to the bigger group; we think it can be done with revenue bonds, with certain assumptions listed.

Mr. Korell stated that we are going to put in the total costs for water and total costs for wastewater as line items.

Mr. Hesser questioned item 4, if the standards are changed and we have to make a big improvement, we might want to bond these costs and we don’t want to tie our hands at 15 years. It was noted that the verbiage Mr. Brown is suggesting is appropriate, and as such should “reflect the economic life of the asset, not to exceed 20 years.” Mr. Herz suggested wording, “reflect the economic life of the asset not to exceed 30 years and to consider the current economic conditions at the time of the bond issuance.”

Mr. Korell stated that he appreciated the input and that we will consider these suggestions.

Mr. Ecklund asked if we had discussed coverage numbers. Mr. Korell stated that we talked about it last time; specifically that it is not prudent to not manage to 1.25 as it is just too tight, and that we need to manage the system on average. Mr. Giovanni felt that 1.5 to 1.7 was achievable in the projections. Mr. Korell asked Mr. Herz what he is comfortable with. Mr. Herz stated that he feels a 1.5 to 1.7 is a reasonable range.

Mr. Meginnis stated that we have heard from one bond issuer and no bond counsels, and he was hoping to listen to some other outside people before we decided. Mr. Korell asked the group how many would like to hear from another bond advisor; three responded with yes. It was decided to work through LES's financial advisor and see if they can give us an opinion.

Mr. Seacrest asked why we need item #5 if we have item #6. If it is due to economic times, he stated that the bond coverage factor would be different. Mr. Herz stated that he would like to see item #5 remain in there. Mr. Korell agreed with him.

An audience member asked if debt service coverage ratio could be defined.

Mr. Korell stated that the document would be reworked and that the group's recommendations would be taken into consideration.

8. Other Business

The next meeting will take place on February 12, 2003 at 3:30 p.m. in the Mayor's Conference Room.

Mr. Korell set the stage for the next meeting by stating that we are going to delve into streets. He stated that he plans to start by getting ideas out on the floor, and then taking the larger problem, breaking it down into manageable pieces, and prioritizing the pieces. He stated that he had asked Mr. Abbott what the imperatives are to meet this growth plan. Mr. Abbott responded that we can prioritize to some extent and then determine what we build next. He stated that we will list some assumptions because that is the only way to prioritize, but it can vary widely.

Mr. Seacrest asked if we are being fair in asking Mr. Abbott to do that, when that is part of the charge of the efficiency group and also to comply with the Comprehensive Plan. Mr. Korell stated that the Comp Plan isn't specific to dates. He continued by stating that our charge is to fulfill the Comp Plan, and we aren't going to depart from that. Mr. Seacrest stated that he believed that Mr. Abbott was warning you that you are heading down that road. Mr. Zink stated that the practical reality is that we don't have the money to do the Comp Plan, and asked how we do our best to meet that. Mr. Abbott stated that is one of the things the Efficiency group is looking at. He stated that it won't save money, but it will defer the cost. Mr. Seacrest stated that this committee should be focusing on looking at all the creative revenue sources and then giving our best judgment on how much we can tolerate. Mr. Korell stated that the first effort would be to determine how much pain we can stand. He then thanked the group for their discussion.

Mr. Korell closed the meeting at 5:21 p.m.